

REGULATION OF BANK INDONESIA  
NUMBER 8/14/PBI/2006  
CONCERNING  
AMENDMENT TO REGULATION OF BANK INDONESIA  
NUMBER 8/4/PBI/2006 REGARDING IMPLEMENTATION  
OF GOOD CORPORATE GOVERNANCE  
FOR COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas an improvement in the quality of good corporate governance implementation is among the efforts to strengthen the internal condition of national banks pursuant to the Indonesian Banking Architecture (IBA);
  - b. whereas Board of Commissioners and Board of Directors play a very important role in the implementation of Good Corporate Governance;
  - c. whereas check and balance from independent parties with the concerned Controlling Shareholders will enhance the implementation of Good Corporate Governance of the bank;
  - d. whereas the dynamic factor in the implementation of Good Corporate Governance should have a proportional response in order to optimally perform a Good Corporate Governance of the bank;

e. whereas ...

- e. whereas based on considerations referred to in letter a, letter b, letter c and letter d, it is considered necessary to make amendment to Bank Indonesia Regulation concerning Good Corporate Governance Implementation by Commercial Banks;

- In view of:
- 1. Act Number 7 Year 1992 concerning Banking (State Gazette of The Republic of Indonesia Year 1992 Number 31, Supplement to State Gazette of The Republic of Indonesia Number 3472) as amended by Act Number 10 Year 1998 (State Gazette of The Republic of Indonesia Year 1998 Number 182, Supplement to State Gazette of The Republic of Indonesia Number 3790);
  - 2. Act Number 23 Year 1999 concerning Bank Indonesia (State Gazette of The Republic of Indonesia Year 1999 Number 66, Supplement to State Gazette of The Republic of Indonesia Number 3843) as amended by Act Number 3 Year 2004 (State Gazette of The Republic of Indonesia Year 2004 Number 7, Supplement to State Gazette of The Republic of Indonesia Number 4357);

H A S D E C I D E D:

To enact: REGULATION OF BANK INDONESIA CONCERNING AMENDMENT TO REGULATION OF BANK INDONESIA NUMBER 8/4/PBI/2006 REGARDING IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE FOR COMMERCIAL BANKS.

## Article I

Several provisions in the Regulation of Bank Indonesia Number 8/4/PBI/2006 concerning the Implementation of Good Corporate Governance for Commercial banks (State Gazette of the Republic of Indonesia Year 2006 Number 6, Supplement of the State Gazette of the Republic of Indonesia Number 4600) were amended to read as follows:

1. The provisions of Article 1 number 4 and number 5 are amended to read as follows :

### Article 1

In this Bank Indonesia Regulation, the following terminologies shall have the following meanings:

1. Bank shall be Commercial Bank as referred to in Act Number 7 Year 1992 concerning Banking as amended by Act Number 10 Year 1998, including branch offices of foreign banks.
2. Commissioner :
  - a. of a Bank incorporated as a Limited Liability Company, shall be Commissioner as referred to in Article 1 number 5 of Act Number 1 Year 1995 concerning Limited Liability Companies;
  - b. of a Bank incorporated as a Regional Government Enterprise shall be member of Supervisory Board as referred to in Article 19 of Act Number 5 Year 1962 concerning Regional Government Enterprise;
  - c. of a Bank incorporated as a Cooperative shall be member of the Supervisory Board as referred to in Article 38 of Act Number 25 Year 1992 concerning Cooperatives.

3. The Board of Directors:
  - a. of a Bank incorporated as a Limited Liability Company shall be The Board of Directors as referred to in Article 1 number 4 of Act Number 1 Year 1995 concerning Limited Liability Companies;
  - b. of a Bank incorporated as a Regional Government Enterprise shall be The Board of Directors as referred to in Article 11 Act Number 5 Year 1962 concerning Regional Government Enterprise;
  - c. of a Bank incorporated as a Cooperative shall be Management Board as referred to in Article 29 of Act Number 25 Year 1992 concerning Cooperatives;
  - d. of a branch office of a foreign bank shall be the head of the branch office of a foreign bank.
4. Independent Commissioner shall be a member of The Board of Commissioners without any financial, management, share ownership and/or family relationships with other members of The Board of Commissioners, The Board of Directors and /or Controlling Shareholders or any other relationships that may affect his/her ability to act independently.
5. Independent Party shall be external party of the Bank without any financial, management, share ownership and/or family relationship with The Board of Commissioners, The Board of Directors and /or Controlling Shareholders or other relationships that may affect his/her ability to act independently.
6. Good Corporate Governance shall be Bank governing procedures through the application of transparency, accountability, responsibility, independency, and fairness principles.

7. Stakeholders shall be all parties having direct or indirect interests in Bank business activities.
8. Executive Officer shall be an officer directly responsible to The Board of Directors or exercising influence over the policy and operation of the company or Bank, including but not limited to branch office manager and head of Internal Audit Work Unit.

2. The provision of Article 5 is amended to read as follows :

Article 5

- (1) The Board of Commissioners shall consist of Commissioners and Independent Commissioners.
- (2) No less than 50% (fifty percent) of the number of the Board of Commissioners members shall be Independent Commissioners.
- (3) Former member of Board of Directors or Executive Officer or parties closely related to banks, capable of exercising influence in acting independently can only be Independent Commissioner to the Bank after completing a cooling off period of 1 (one) year.
- (4) The provision as referred to in paragraph (3) is not valid for Former Board of Directors or Executive Officer performing supervisory function.

3. The provision of Article 6 is amended to read as follows :

Article 6

- (1) Any recommendation to replace and /or appoint members of the Board of Commissioners to the General Meeting of Shareholders must consider the recommendation from the Remuneration and Nomination Committee.

(2) Any ...

- (2) Any member of the Remuneration and Nomination Committee should disclose any conflict of interest related to the recommendation.
- (3) Members of the Board of Commissioners must satisfy the requirement of passing the Fit and Proper Test pursuant to Bank Indonesia regulation concerning Fit and Proper Test.

4. The provision of Article 7 is amended to read as follows :

Article 7

- (1) Each member of the Board of Commissioners may only hold another position as :
  - a. member of the Board of Commissioners, the Board of Directors, or Executive Officer at 1 (one) non financial institution/company, or
  - b. member of the Board of Commissioners, the Board of Directors, or Executive Officer performing supervisory function at 1 (one) non financial institution/company controlled by Bank.
- (2) It shall not be considered as holding another position as referred to in Paragraph (1) if :
  - a. the member of the Board of Commissioners performs the functional tasks of Bank owner which is a legal entity, and/or
  - b. the member of the Board of Commissioners holds another position in a non profit organization or institution,insofar that he/she does not forsake the implementation of tasks and responsibilities as a member of the Board of Commissioners of the Bank.

(3) The majority ...

- (3) The majority of the Board of Commissioners members shall refrain from having family relationship up to the second degree with other members of the Board of Commissioners and /or members the Board of Directors.

5. The provision of Article 9 is amended to read as follows :

Article 9

- (1) The Board of Commissioners must ensure the implementation of Good Corporate Governance in each of the Bank business activity on all organizational levels or hierarchy as referred to in Article 2.
- (2) The Board of Commissioners must perform supervisory function on the implementation of the tasks and responsibilities of the Board of Directors, and must provide advice to the Board of Directors.
- (3) In performing the supervisory function as referred to in paragraph (2), commissioners must direct, monitor, and evaluate the implementation of Bank strategic policies.
- (4) In performing the supervisory function as referred to in paragraph (2), the Board of Commissioners are prohibited from being involved in decision making related to Bank operational activities, except :
  - a. provision of funds to related parties as stipulated in Bank Indonesia regulation concerning Commercial Bank Legal Lending Limit; and
  - b. other matters as stipulated in the Bank's Articles of Association or prevailing laws and regulations.

(5) Decision ...

- (5) Decision making by the Board of Commissioners as referred to in paragraph (4) shall not erase the responsibilities of the Board of Directors in performing Bank management function.

- 6. The provision of Article 15 is amended to read as follows :

Article 15

- (1) Board of Commissioners meeting must be held periodically at least 4 (four) times a year.
- (2) Board of Commissioners meeting as referred to in paragraph (1) must be physically attended by all members of the Board of Commissioners no less than 2 (two) times a year.
- (3) In case Board of Commissioners cannot physically attend the meeting, then he/she is suggested to attend the meeting using teleconference technology.

- 7. The provision of Article 17 is amended to read as follows:

Article 17

Members of the Board of Commissioners must disclose:

- a. share ownership reaching 5% (five percent) or more at the bank and other banks and companies domiciled domestically and abroad;
- b. financial relationship and family relationship with other members of the Board of Commissioners, members of the Board of Directors and /or Bank Shareholders, in the Good Corporate Governance implementation report as stipulated in this Bank Indonesia Regulation,

8. The provision ...



8. The provision of Article 22 is amended to read as follows :

Article 22

- (1) Each member of the Board of Directors is prohibited from holding another position as a member of the Board of Commissioners, the Board of Directors or Executive Officer at a bank, company and /or other institution.
- (2) It shall not be considered as holding another position as referred to in Paragraph (1) if the member of the Board of Directors responsible for the supervision at the non financial institution/company performs functional duty as a member of the Board of Commissioners at the non financial institution/company controlled by bank, insofar that he/she does not forsake the implementation and responsibilities as a member of the Board of Directors of the Bank.
- (3) Each member of the Board of Directors both individually or jointly is prohibited from owning shares of more than 25% (twenty five percent) from the paid in capital of the Bank and /or another company.

9. The provision of Article 36 is amended to read as follows:

Article 36

Members of the Board of Directors must disclose:

- a. share ownership reaching 5% (five percent) or more at the bank and other banks and companies domiciled domestically and abroad;
- b. financial ...

b financial relationship and family relationship with members of the Board of Commissioners, other members of the Board of Directors and /or Bank Shareholders,

in the Good Corporate Governance implementation report as stipulated in this Bank Indonesia Regulation.

10. One Article to be inserted between Article 39 and Article 40, to become Article 39A that will read as follows :

Article 39A

- (1) Former member of Board of Directors or Executive Officer or parties related to the Bank, capable of exercising influence in acting independently cannot be Independent Party as committee member as referred to in Article 38 paragraph (1) letter b and letter c, and Article 39 paragraph (1) letter b and letter c to the Bank before completing a cooling off period of 6 (six) months.
- (2) Provision as referred to in paragraph 1 (one) is not valid for Former member of Board of Directors or Executive Officer performing supervisory function.

11. The provision of Article 40 is amended to read as follows :

Article 40

- (1) Remuneration and Nomination Committee members as referred to in Article 12 Paragraph (1) letter c must at least consist of :

a. an Independent ...

- a. an Independent Commissioner;
- b. a Commissioner; and
- c. an Executive Officer in charge of human resources or employee's representative.

- (2) Remuneration and Nomination Committee as referred to in paragraph (1) shall be headed by an independent commissioner.
- (3) Board of Directors members are prohibited from becoming Remuneration and Nomination Committee members as referred to in paragraph (1).
- (4) If the number of Remuneration and Nomination Committee members are more than 3 (three) persons then the number of independent commissioners in the Committee must at least be 2 (two) persons.

12. The provision of Article 46 is amended to read as follows :

Article 46

The Remuneration and Nomination Committee as referred to in Article 12 Paragraph (1) letter c must ensure that the remuneration policy commensurate with at least the following :

- a. financial performance and reserves formation as stipulated in prevailing laws and regulations;
- b. individual work performance;
- c. fairness compared to peer group; and
- d. consideration on long term goals and strategies of the Bank.

13. The provision ...

13. The provision of Article 47 is amended to read as follows:

Article 47

- (1) Committee meetings shall be held in accordance to the need of the Bank.
- (2) Audit Committee and Risk Policy Committee meetings may only be held if attended by no less than 51% (fifty one percent) of the number of members and shall include an independent commissioner and an independent party.
- (3) Remuneration and Nomination Committee meetings may only be held if attended by no less than 51% (fifty one percent) of the number of members and shall include an independent commissioner and an executive officer in charge of human resources or employee's representative.

14. The provision of Article 69 is amended to read as follows:

Article 69

Banks that do not comply with the provisions referred to in Article 4, Article 5, Article 7, Article 8, Article 9, Article 10, Article 11, Article 12, Article 13, Article 14, Article 15, Article 16, Article 17, Article 18, Article 19, Article 20, Article 22, Article 23, Article 24, Article 25, Article 26, Article 27, Article 28, Article 29, Article 30, Article 31, Article 32, Article 33, Article 35, Article 36, Article 37, Article 38, Article 39, Article 40, Article 41, Article 42, Article 43, Article 44, Article 45, Article 46, Article 47, Article 48, Article 49, Article 50 Paragraph (2) and Paragraph (3), Article 52 Paragraph (2), Article 59, Article 60, Article 65, Article 67 shall be imposed with administrative sanctions such as:

a. warning letter;

b. decrease ...

- b. decrease of soundness rating for the management factor in the soundness rating evaluation;
- c. prohibition from participating in clearing activities;
- d. freezing of certain business activities;
- e. termination of Bank management and appointment of temporary replacement until a General Meeting of Shareholders or Cooperative Members Meeting appoints a permanent replacement with Bank Indonesia's approval; and
- f. inclusion of management members, employees, Bank shareholders on the list of disqualified people (DTL) through fit and proper test mechanism.

15. The provision of Article 70 is amended to read as follows :

Article 70

Banks that do not comply with the provisions in Article 49, Article 50 Paragraph (1), Article 51, and Article 52 Paragraph (1) and Paragraph (3) shall be imposed with the sanction as stipulated in Bank Indonesia Regulation concerning Assignment of Compliance Director and Implementation of Standard for Performing Commercial Bank Internal Audit Function and Bank Indonesia Regulation concerning Transparency in Bank Financial Condition.

16. One article will be inserted between Article 74 and 75, to become Article 74A that reads as follows:

Article 74A

Further provisions of this Regulation of Bank Indonesia will be regulated in

17. The provision ...

the Circular Letter of Bank Indonesia.

17. The provision of Article 76 is amended to read as follows :

Article 76

- (1) Publicly owned Banks and or Banks with assets amounting to Rp10,000,000,000,000.00 (ten trillion rupiahs) or more must comply with the provisions referred to in Article 4, Article 5, Article 12, Article 13, Article 20 and Article 33 no later than the end of June 2007.
- (2) Non publicly owned Banks with assets amounting to less than Rp10,000,000,000,000.00 (ten trillion rupiahs) must comply with :
  - a. the provisions as referred to in Article 4, Article 5, Article 7 and Article 12 Paragraph (1) letter a and letter b, Article 13, Article 20 and Article 33 no later than the end of June 2007; and
  - b. the provisions as referred to in Article 12 Paragraph (1) letter c no later than the end of June 2008.

18. One article to be inserted between Article 76 and 77, to become Article 76A that reads as follows :

Article 76A

The provisions of Article 5 paragraph 3 will not be valid for candidates of Independent Commissioners who at the time of this enactment are still undergoing the process of fit and proper test.

Article II

This regulation will be effective starting from the date of its enactment.

Stipulated in Jakarta

October 5, 2006

GOVERNOR OF BANK INDONESIA

BURHANUDDIN ABDULLAH

ELUCIDATION  
TO  
REGULATIONS OF BANK INDONESIA  
NUMBER 8/14/PBI/2006  
CONCERNING  
THE AMENDMENT TO REGULATIONS OF BANK INDONESIA  
NUMBER 8/4/PBI/2006 REGARDING THE IMPLEMENTATION OF  
*GOOD CORPORATE GOVERNANCE*  
FOR COMMERCIAL BANKS

GENERAL

The improvement of quality in Good Corporate Governance implementation is necessary to be conducted due to the increasing complexity of risk and challenge faced by banking industry, both internally and externally. Internally, the Board of Commissioners and Board of Directors are expected to be able to act as role models and activator so that Banks will implement optimally the principles of Good Corporate Governance.

The structure of Board of Commissioner and Board of Directors consists of independent parties as well as parties affiliated to the Bank Controlling Shareholders. With the existence of both mentioned parties, it is expected that the enhancement of check and balance can be conducted that will finally lead to the optimal implementation of Bank Good Corporate Governance.

Functioning as Independent Commissioner and Independent Party, the member of the Committee should refrain from any conflict of interest. In avoidance of conflict of interest, it is considered necessary for former Board of

Commissioners ...



Commissioners and other parties related to the Bank to pass a cooling off period before functioning as a member of the Committee of Independent Commissioner or Independent Party.

In supporting the implementation of Bank Good Corporate Governance, the Bank shareholders will be able to appoint representatives to become members of the Board of Commissioner or Board of Directors to ensure the supervisory function towards Banks and Bank Business Group performing non banking activities.

## ARTICLE BY ARTICLE

### Article I

#### Number 1

##### Article 1

Self Explanatory.

#### Number 2

##### Article 5

##### Paragraph (1)

The role of Independent Commissioner is to encourage a more objective working climate and environment as well as fairness and equality within various interests including the interests of minority shareholders and other stakeholders.

##### Paragraph (2)

As an example, if there are 3 members of Commissioners,

Paragraph (3)...

the number of Independent Commissioner should be minimum 2.

Paragraph (3)

Cooling off is a rest period effective from the end of the terms of office of the person as member of Board of Directors or Executive Officer or other relation with the Bank to his/her assignment as an Independent Commissioner.

Paragraph (4)

“The people performing supervisory function” include the Compliance Director, Risk Management Director, Executive Officer responsible for supervision of working unit, such as Executive Officers in charge of internal audit, compliance and risk management.

Number 3

Article 6

Self Explanatory.

Number 4

Article 7

Paragraph (1)

Letter a

Non financial institution/company or non banking subsidiary company located in the country or abroad.

Letter b

The meaning of non banking subsidiary company controlled by the Bank is a subsidiary company of the

Paragraph (2)...

Bank with non banking activities and its financial report should be consolidated with the financial report of the Bank.

Paragraph (2)

Letter a

The meaning of Bank shareholders with legal entity is the controlling shareholders with legal entity as referred to in the provisions of Bank Indonesia concerning fit and proper test, including the government or other institutions functioning as the controlling of the shareholders of the Bank.

Including in the meaning of performing functional task is when the related function at the Bank and/or business group with legal entit of Bank shareholders including subsidiary company is to perform its function as the representative of the Bank shareholders, such as member of Board of Commissioners, member of Board of Directors or Executive Officer.

Letter b

Self Explanatory.

Paragraph (3)

The meaning of up to second degree family relationship include vertical as well as horizontal relationships, including parents in-law, son/daughter in-law, and brother/sister in-law, so that the term “family” shall mean:

1. biological/step/adopted parents;

2. Biological...

2. biological/step/adopted brothers and sisters together with their husbands or wives;
3. biological/step/adopted children;
4. biological/step/adopted grandparents;
5. biological/foster/adopted grandchildren;
6. biological/foster/adopted brothers and sisters of parents together with their husbands or wives;
7. husband/wife;
8. parents in-law;
9. parents of son/daughter in law;
10. husband/wife of biological/step/adopted children;
11. grandparents of husband or wife;
12. husband/wife of biological/step/adopted grandchildren;
13. biological/step/adopted brother and sister of husband or wife together with their husband or wife.

The meaning of majority of members of Board of Commissioners is more than 50% (fifty percent) of the members of Board of Commissioners.

Number 5

Article 9

Paragraph (1)

Self Explanatory.

Paragraph (2)...

Paragraph (2)

Self Explanatory.

Paragraph (3)

Self Explanatory.

Paragraph (4)

The meaning of operational activities shall be credit activities, treasury, fund raising and other operations activities,

Letter a

Self Explanatory.

Letter b

The enactment of Budget regarding other matters where the decision should involve the Board of Commissioners, should be directed to strategic matters and influence the business continuity of the Bank.

Paragraph (5)

Self Explanatory.

Number 6

Paragraph 15

Article (1)

The form of meeting will meet the requirement of the Bank, including the use of teleconference technology.

Article (2)

All members of the Board of Commissioners should make efforts to be physically present at meetings scheduled for evaluation/enactment of strategic policy and evaluation of the realisation of Bank business plan.

Paragraph 3 ...

Paragraph (3)

Self Explanatory.

Number 7

Article 17

Self Explanatory.

Number 8

Article 22

Paragraph (1)

The meaning of bank in this paragraph is commercial bank and people's credit bank, in the country or abroad.

Paragraph (2)

The meaning of non banking subsidiary company controlled by the Bank is a subsidiary company of the Bank with non banking activities and its financial report should be consolidated with the financial report of the Bank.

Paragraph (3)

Other companies include banking and non banking financial institutions, funding institution or companies.

Number 9

Article 36

Self Explanatory.

Number 10

Article 39A

Paragraph (1)

Cooling off is the rest period starting from the termination of position of the person as a member of the Board of Directors

Paragraph (2)...

or Executive Officer or other relation with the Bank up to the assignment of the person effectively as the Independent Party of the Committee member.

Paragraph (2)

Those performing supervisory functions are among others, the Director of Compliance, Director of Risk Management as well as Executive Officer in charge of supervisory work unit, including Executive Officer responsible for internal audit, compliance and risk management.

Number 11

Article 40

Self Explanatory.

Number 12

Article 46

Letter a

Reserve means the reserves as referred to in the Regulations of a Limited Company.

Letter b

Remuneration related to the work performance of an individual should accomplish an equivalent between individual work performance and the remuneration received by the individual concerned.

Letter c

Peer group means the equality of position at internal Bank and at several banks of the same type, in terms of assets and characteristics.

Letter d ...

Letter d

Self Explanatory.

Number 13

Article 47

Self Explanatory.

Number 14

Article 69

Self Explanatory.

Number 15

Article 70

Self Explanatory.

Number 16

Article 74A

Self Explanatory.

Number 17

Article 76

Self Explanatory.

Number 18

Article 76A

Self Explanatory.

Chapter II

Self Explanatory.



